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ROBERT MACNEIL: Reagan Administration proposals to trim pension benefits for federal workers came under sharp attack in Congress today. Key House members said the proposals could destroy the civil service system, and accused the Administration of intimidating and harassing federal workers. The charges were made as a Post Office and Civil Service Subcommittee began considering the Reagan proposals, which include freezing federal pay and delaying cost of living adjustments for federal workers and Social Security recipients.

The proposals have created an uproar among government and non-government retired persons, whose spokesmen claim the Administration is trying to make budget savings at the expense of older Americans. But the proposals were defended today in testimony by Donald Devine, Director of the Office of Personnel Management.

Tonight, with key players in what looks like one of the tougher political battles of the months ahead, the fairness of the pension changes.

JIM LEHRER: Robin, there are four major pieces to the Administration's plan for federal pensioners. The automatic cost of living increase in their pensions would be frozen for a year. The current retirement age of 55 would be raised to 65, with penalties for those retiring early. The seven-percent-of-salary contribution to the pension fund now required of federal workers would be upped to 11 percent. And finally, the current method for calculating pensions, basing it on the highest three years of income, would be changed to the highest five years. All of this is in addition to requiring new federal workers to join the Social Security system, something they do not now have to do, and

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freezing the pay of current federal workers for a year.

It's a package a key member of Congress today branded a demonstration of the indifference and unfairness this Administration has for all American workers and retirees. The member who said that is Congresswoman Mary Rose Oakar, Democrat of Ohio. She's key because she chairs the House Subcommittee on Civil Service Compensation and Benefits, the one Mr. Devine testified before today.

You also said that these proposals would have a disastrous effect on the federal work force. Why?

REP. MARY ROSE OAKAR: Well, because right now what we look for is career employees. The average person who retired last year put in 29 years of service to the government. And we know that in terms of comparability, federal employees are 19 percent below what they could be making in the private sector. So one of the reasons why they stay in as a federal employee is because they feel that at least their fringe benefits will be somewhat equitable and fair.

LEHRER: All right. Let's go through some of these -- the pieces to this plan and to get what your objections are.

For instance, what's wrong with freezing the pension cost of living increase for a year? Many other people are going to have to do the same thing.

REP. OAKAR: Well, remember -- well, in terms of the Social Security plan, they want to freeze it for six months, which I object to also.

But 40 percent of federal employees get less than \$8000 a year in their retirement, and 75 percent of the spouses get less than \$500 a month. They pay almost \$100 in health benefits, very often. So we're talking about people who are really not getting an over-benefit, in my judgment, to begin with.

They already had their COLA adjusted terrifically in the last session, under the Reagan proposal. So now you want to take their one and only COLA and freeze it for a full year. That's a permanent loss to them which will never be retrieved and it'll be a hardship for many of them.

LEHRER: What's wrong with raising the retirement age to 65 from 55?

REP. OAKAR: Well, that is really a broken contract. Under the present law, if you put in 30 years of service, you can retire at age 55. And, you know, if they were under ERISA, which

private pensions are under, it'd be against the law to change the accrued the benefit. It would really -- it's a broken contract. Their expectation -- how would you feel if you were a person who had worked 27 years, let's say, for the government and you were 53 years old? It's just another anti-retiree kind of proposal.

LEHRER: What about basing the amount of the pension contribution on five years of the highest income rather than three?

REP. OAKAR: Well, this, in my judgment, would be particularly disastrous for women, who go in and out of the labor force, particularly in the Federal Government, to raise a family or take care of a sick parent. And her top -- she's lucky if she gets three high years to begin with. Then if you mandate that it has to be five, they would really be at the bottom of the barrel. They are already.

So it's another attack, in my judgment, on women's -- you know, the cost of living, but it takes for heads of households and so forth.

LEHRER: What about contributing 11 rather than seven percent of their salary to the pension fund?

REP. OAKAR: That is unprecedented. Dr. Devine acknowledged today in the hearing that there isn't anyone in the private sector where there is a corporation that demands 11 percent. Most of them don't even have an employee contribution in terms of their private pension plan. And that is just a real chunk out of their money. And in return, they'll get less of a pension, really, if you take a comprehensive -- take the issue comprehensively. So you're asking them to pay more and get much less.

Again, it's very unfair.

LEHRER: Thank you.

MACNEIL: The lone Administration witness who took the President's case to the Hill today, and took the heat for it, was Donald Devine. As Director of the Office of Personnel Management, he is, in effect -- or he, in effect, runs the Federal Government's personnel agency.

Dr. Devine, first of all, how do you respond to the Congresswoman's charge that your proposals could destroy the civil service and drive the best workers out of the Federal Government? You heard her say that on the Hill today.

DONALD DEVINE: Well, as I mentioned to her today, I

just don't believe that's true. I think that after the changes that we would propose to make in the pension and the other areas, that we would still be very competitive with the private sector. Our average salaries are higher than the private sector when we look at the whole population, even when we match occupation by occupation.

MACNEIL: They're not 19 percent below private sector compensation, which the Congresswoman just said?

DEVINE: No, they are not. We have a survey that says that they are, but that's become part of the political process, to have a political survey that doesn't make sense.

The Chamber of Commerce says that federal employees are overpaid 35 percent, relative to the private sector. That's not a fair survey either.

We've done several different ways to try to measure that. We feel that somewhere between 11 percent overpayment and a little less than one percent overpayment, relative to the private sector, is a much better estimate of what the difference is in pay.

At one time, there was a difference in pay, that federal employees got paid less. But that hasn't been the case in recent years.

MACNEIL: Just on the philosophy behind this, does the Reagan Administration believe that you do need to give federal workers a little bit something extra to compensate them for not being in the private sector? Do you accept that principle?

DEVINE: No. I think that we want to be competitive with the private sector. We have good workers. We have a bad system that gives them incentives to retire too early. It gives them -- it doesn't give them positive incentives to perform well.

We have a comprehensive package that we talk about reforming the personnel system, of which the pension is just one part of our proposal.

MACNEIL: Can we go over some of the specifics? What is the rationale for raising the retirement age? The Congresswoman just said it would break the contract.

DEVINE: Well, I don't believe that an employer and an employee enter into a revocable -- unrevocable contract when they get into an employment situation. That would mean an employee, when he went in for his first salary, or she went in for her salary, would commit themselves to getting paid that same salary

the rest of the time they worked there. I think that's preposterous. Conditions change, employment conditions change. And our system is very, very generous, relative to the private sector. About 60 percent of the private sector only relies on Social Security. The other 40 percent has an average replacement rate of their salary of about 30 percent, where ours is 56 percent.

MACNEIL: What does that mean, the replacement rate?

DEVINE: The percent of salary before retirement, that they would get that percentage of their salary.

MACNEIL: What about the proposal to increase the contribution from seven to 11 percent? The Congresswoman says that that is unprecedented and that you conceded that today. Did you?

DEVINE: No. I conceded that most of the private sector does not have that high a contribution rate for their private pension plans. But again, very few in the private sector have plans as generous as ours. I think if federal employees want very high pension benefits -- and my opinion is that they do -- that it's reasonable to ask them to share the expense. That's the way the program was originally set up. That was the understanding the public had. And what we've allowed this system to do since 1969 is to get away from that principle of equal sharing of burden. It was set up, as Social Security was, to have equal share by employer, being the government, and employee.

MACNEIL: Would you explain the fiscal thinking behind why you think it is necessary to -- because of the funding position of the federal pension scheme -- to make these revisions?

DEVINE: We have an unfunded liability of a half a trillion dollars. We carry a thing on the national debt that we say have a debt obligation of one trillion dollars. If we took the unfunded liability of my system, we would increase by one-half again the total national debt. We have a tremendous fiscal obligation that we...

MACNEIL: Is that to pay the pensions that are presently owed people?

DEVINE: Yes, sir.

MACNEIL: It would cost the -- if you had to pay everything all at once, it would cost \$500 billion?

DEVINE: Yes, sir.

MACNEIL: Well, thank you.

LEHRER: Among those who disagree the most with Mr. Devine and the Reagan Administration's view of all of this is the American Association of Retired Persons, an organization of some 14 million retired Americans, including civil servants. The association's executive director is Sy Britfield (?).

Is your group opposed to all parts of what the Administration is proposing?

SY BRITFIELD: You mean in the budget or Social Security?

LEHRER: I mean -- no, no -- on what we're talking about tonight, for the things that involve federal pensions.

BRITFIELD: Yes. Well, we look at...

LEHRER: Things we've been talking about up till now.

BRITFIELD: We think that, as a package, we have grave reservations about the whole thing. But we also say -- and we're inclined to agree with the Congresswoman -- that it's a question of fairness. Here we are trying to reduce the deficit by changing the working conditions of the retirees and the people that are in the work force. If their salaries are too high or their retirement benefits are wrong, that should be treated separately as a retirement issue. It shouldn't be treated as part of the government's effort to reduce deficits. The roots...

LEHRER: Why not?

BRITFIELD: Well, the root causes of the deficit are really in three very large areas. The first is the 1981 tax cut, which gave away too much money. And people mostly agree on that. The second is the recession, high unemployment. One percent unemployment means that the government loses 30 billions of dollars in income. And then, finally, it's the defense budget. People on the Hill agree that it's been growing too rapidly.

I think that we should attract -- concern ourselves with those areas and treat retirement benefits separately.

LEHRER: In other words, they should be an untouchable?

BRITFIELD: No, they shouldn't be untouchable. But I'm saying that they should come under the scrutiny of all things. The Department of Defense and its requirements should be scrutinized, as well as the Social Security...

LEHRER: Okay. That's another program. But specifically, you're saying, then, that everything that Mr. Devine and the Administration wants done should not be done.

BRITFIELD: It shouldn't be done at this time as part of a mechanism to reduce the deficits. We're saying that if Social Security or civil service retirement benefits aren't right or that the workers' benefits in the work force today should be adjusted, they should be treated by a committee that will take care of that. But the Administration has run in on this budget a deficit-reducing mechanism. And as I'm saying, they should address that, and not the civil service worker.

LEHRER: Let me ask you about one of the parts of the proposal that I did not ask the Congresswoman about, and that is this question of bringing federal employees under the Social Security system. Do you object to that?

BRITFIELD: Well, we wouldn't want them brought in unless it was on a voluntary basis. Because the federal workers, when he came in, could rely on certain things that the government offered. And we're saying that to change the rules in the middle of the game is wrong.

LEHRER: Well, my understanding is that this would apply only to new federal workers. Am I wrong about that?

BRITFIELD: Well, I don't know. And I would say this: that if you brought in a new federal worker and you put him under Social Security, is that all that he gets? Because the average payment in Social Security is about \$5000 a year. And you're not going to ask a federal worker to go on a retirement on 5000 a year.

The trouble with the reform commission is that they said the federal worker should be brought under Social Security, but they didn't provide any safeguards. We feel that if you're going to bring the federal worker onto Social Security, you ought to provide not only for Social Security benefits, but an additional pension program so that would give him a decent retirement income when he does retire. You just can't do it on Social Security alone.

LEHRER: Thank you.

MACNEIL: Now the view of an organization which lobbies to bring federal spending under control. The National Taxpayers Union is supported by voluntary contributions and has 112,000 members. Its chairman is James Davidson.

Mr. Davidson, do you support these Administration

proposals?

JAMES DAVIDSON: Well, I think some of them move in the right direction, but they wimped out in several instances.

MACNEIL: They wimped out?

DAVIDSON: They wimped out, to coin a word, which I guess we're doing all the time.

First of all, we talked a moment ago about bringing federal workers under Social Security. This is a 40-year phase-in, which is something which is practically unheard of. There's never been a phase-in in Social Security that took so long. And I think it isn't really necessary because -- it isn't necessary to wait 40 years because we've got a situation today where there's an urgent requirement to keep the Social Security system solvent. It is the largest welfare program in the world. And what we are saying, in effect, is that federal employees should not bear the tax burden of supporting such a program. And I think that that is not a principle that most people would agree with.

Another thing is that they're taking a long time, they're taking ten years to phase in the movement of the retirement age from 55 to 65. And I would say that in a perfect world or in a better world, people would be able to retire at the age 29, like the Italian government allows some of its people to do. But the problem is that we're drawing money out of an empty pocket and we can't afford to do it. We ought to immediately move the retirement age up to 65, which is what it is in the private sector.

MACNEIL: You mean even for people, like the Congresswoman instanced, who are 53 today?

DAVIDSON: I think that that is not unfair. And I don't say this out of any animosity to these people who are planning to retire. But in the private sector, people cannot retire until age 65. If you do it on Social Security at age 62, you suffer a substantial loss of income.

I think that while it's very unfortunate that we do not have enough money to keep these benefits going, one of the things that Mr. Devine did not mention is that the public employee, the average public employee who retires, under the assumptions that have continued over the recent years, will get \$450,000 in pension benefits during his retirement, whereas the average person retiring in the private sector will not even get 160,000; but the average one who has a corporate plan plus Social Security will get about \$167,000. That is a tremendous difference, that

the public employee gets several times what the private person does. And this country cannot afford to continue doing that.

MACNEIL: What would you propose instead, Mr. Davidson? If you don't think they've gone far enough, apart from accelerating the increase in the retirement age, what would you propose instead of this?

DAVIDSON: Well, I think that what we need to do in the government pension system is to -- certainly to protect all those people who are now receiving pensions. I'm not saying repudiate the pensions for people who are now retired. But I am saying that what we need to do is to move in an accelerated fashion toward having government employees have an IRA program or some other program where they pay for their pension benefits the same way...

MACNEIL: That's the individual retirement account.

DAVIDSON: ...that people do in the private sector. Because one of the things, again, that the Congresswoman did not mention is that today the government retiree pays only 15.5 percent of the benefits that he will get if he lives through a typical life expectancy. And that is certainly not sufficient when the taxpayer has to pick up the other 85 percent.

MACNEIL: Well, thank you.

LEHRER: Congresswoman, what about that? He says -- you heard what he said, specifically, that the public employees fare much better, any way you want to count it, in terms of -- compared with private sector employees, on pensions.

REP. OAKAR: That's simply not true. And as a matter of fact, in terms of the private sector requiring age 65, just the other day Eastman Kodak has a new plan whereby a person can retire after 30 years of service at age 55. And if you look at any other kinds of programs in some of the states, in terms of county or local-level civil servants, you'll find that 55 and 30 years, sometimes 25 years, is pretty much the norm.

LEHRER: In other words, you disagree with the basic point that public employees fare better than private employees.

REP. OAKAR: Oh, they -- yes.

LEHRER: Rather than that they deserve to fare better.

REP. OAKAR: They don't -- first of all, they don't fare better. And secondly, they deserve everything that they get because they are the easy whipping boy. You see, there's only --

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they're governed by the Hatch Act, so they can't get involved in political activity, really. They're being RIFed, you know, daily. So many workers are being let go. They also don't have the opportunity for collective bargaining and so on. We're talking about 2.7 million people who are on the current payroll and 1.7 or 8 million who are retirees. So you're not talking about a lot of people.

So they really are, in many ways, an easy target for the Administration because, politically and otherwise, they're just not a lot of numbers.

LEHRER: Dr. Devine, let me ask you. What is your reading on how public employees' pensions compare with private pensions?

DEVINE: They're exceedingly more generous, no matter what assumptions you make, whether you assume they retire at 55 or retire at 65. If they retire at 55, as they're eligible to retire for, at the lowest income level they'll earn twice the income, about 150,000 to 300,000, for someone in the private sector. If they both retire at 65, at a minimum, they'll make \$50,000 more in their lifetime than the person in the private sector. At the top income levels, they'll make about \$400,000 more if they retire at 65.

I just don't think the Congresswoman is facing the facts. If we look at the numbers in terms of her own state of Ohio, they have about a \$3000 pension payment, on the average, compared to over \$12,000 in the government. I just don't think she's facing the facts.

REP. OAKAR: Well, the comparability issue, for example, he disagreed with me, based on this own statistics. But let's look at who estimates the comparability. It's an objective commission. Dr. Devine is supposedly part of that. The Bureau of Labor Statistics. And they just put out a report, that the President in turn sent to Congress, that said, de facto, federal employees are 19 percent behind the private sector, in terms of their overall pay, etcetera.

So, you see, it's one thing to use statistics...

LEHRER: But on pensions -- we're talking specifically about pensions.

DEVINE: But let me comment on that, in terms of that. I run that survey. No separate committee does. I give the instructions to the Bureau of Labor Statistics. They do the survey. And what we have done is just simply follow the historical survey, which we will not do this year, I can

MACNEIL: But what about making it credible to the federal worker and attractive to attract people into government service?

DEVINE: The Federal Government worker can't feel good about the fact that 65 to 70 percent of his neighbors or her neighbors don't think that they work well.

The only long-term solution to morale in the Federal Government is that they see reflected in the faces of their friends and neighbors the fact that they're respected, as they were at one time.

MACNEIL: What's your view of that, Congresswoman, briefly?

REP. OAKAR: Well, briefly, in the President's State of the Union address, when he announced the freeze, etcetera, you noticed that he apologized to the military, but he didn't say one word about the contribution of the federal worker to our government. If we're the greatest government in the world -- and we are -- it's due, in part, to the contribution of that worker who makes our government run.

DAVIDSON: That is quite true. But the basic issue that I think we keep avoiding is that we have to be able to pay for these things. There is not money in the till to pay.

MACNEIL: What we can't avoid any longer, I'm afraid, is leaving this for the moment.